



School District of
OSCEOLA COUNTY
FLORIDA

School District of Osceola County, Florida

Risk Assessment Update to Develop Proposed Fiscal Year 2020-21 Internal Audit Plan

September 9, 2020



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September 10, 2020

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Pursuant to our Statement of Work dated August 13, 2020, we hereby submit the risk assessment update for the development of the proposed internal audit plan for the School District of Osceola County, Florida ("District") for fiscal year 2020-21 ("FY21").

We updated our Risk Assessment as previously reported August 6, 2019 by applying a broad-based, business view of risk, linked to the annual budget, financial reports, and operations. We reviewed recent board meeting minutes and various media sources to understand the District's current environment. We conducted interviews with the current and previous District School Board Chairmen, Superintendent, and Chief Business and Finance Officer, to gain an understanding of "What keeps them up at night?" and narrow in on their objectives and identified risks. For the purpose of this risk assessment update, 'risk' focuses on financial, strategic, performance/operational, and compliance risk, as well as the general effect of public perception with regard to District-wide activities and initiatives. During the interviews, we discussed and identified areas of high risk, opportunities and vulnerabilities. As a result, we are presenting the Proposed Top 10 High Risk Processes for Internal Audit ("Proposed Top 10"). These are *on-line real-time* and are labeled as *proposed* because it is a *living document*. As factors change and situations arise, the Proposed Top 10 can and will change.

In connection with the performance of these services, we have not performed any management functions, made management decisions, or otherwise performed in a capacity equivalent to that of an employee of the District. We would like to thank the District's School Board, Superintendent, members of leadership, as well as the various departments and staff involved in assisting with the risk assessment update process.

Respectfully Submitted,

RSM US LLP

RSM US LLP

Risk Assessment Update

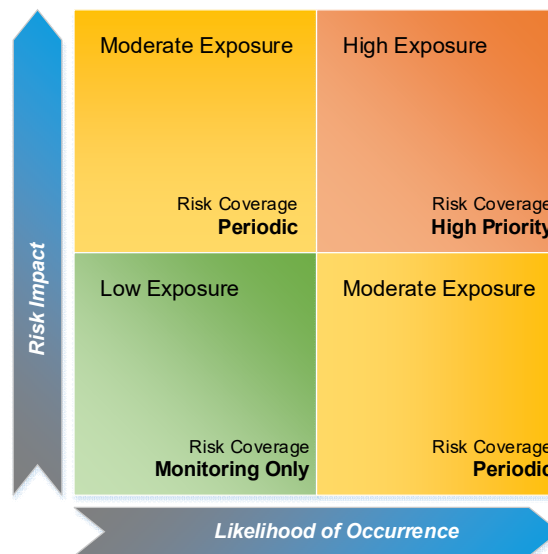
Updating the Proposed Top 10 from the risk assessment update will facilitate that resources are focused on areas of most immediate concern and risk to the District. Our risk assessment update considers 'inherent risk', which is the risk of a function in an environment void of controls. As noted above, functions with inherently high risk may be included in the Proposed Top 10; although their inclusion does not mean 'issues' or concerns currently exist, but rather that the high risk nature of the function is such that a higher potential exists for issues to develop. We have presented the Proposed Top 10, which is *on-line real-time* and are labeled as *proposed* because it is a *living document*. As factors change and situations arise, the Proposed Top 10 can and will change. The chart below illustrates the exposure environment for positioning the District's risks and evaluating the desired response based upon the likelihood of occurrence and priority of risk concerns. A proposed internal audit plan generally focuses on areas or functions that are high exposure and high priority (the upper right quadrant).

Inherent Risk

- Risk of an occurrence before the effect of any existing controls.
- If you were building this process, what would you be concerned about?
- What can we not prevent?

Residual Risk

- Risk remaining after the application of controls.
- Potentially reduced impact or likelihood.



Risk Assessment Update - continued

Our risk assessment update was conducted utilizing a broad-based business view of risk. We conducted interviews with the current and previous District School Board Chairmen to gain an understanding of their perspective of risk at the District, focusing on their objectives in order to identify potential risks. We also conducted interviews with the Superintendent and Chief Business and Finance Officer to identify risks, vulnerabilities and potential opportunities. We reviewed the budget briefing for fiscal year ending June 30, 2021, as well as media coverage and recent School Board meeting agendas, minutes, and other available documentation.

Our approach defines 'Risk' in a government entity as financial and compliance-related risk, as well as public perception risk. Strategic and performance/operational risks are also considered. We evaluated the level of risk present in each area / function, across a standard spectrum of industry-accepted risk categories as follows:

Control Environment	Describes the overall tone and control consciousness of the process / function. It involves the integrity, ethical values, and competence of personnel as well as management philosophy and operating style.
Change	Addresses the extent to which change has impacted or is expected (in the near term) to impact the process / function, including changes in key personnel, statutes, the organization, its products, services, systems, or processes.
Process Risk	Addresses the inherent risk of the activities performed by the process / function, including the assets managed or in the custody of the process / function. Process risk addresses the extent of support the process / function provides to vital the District functions, including the threat to continuity of the District caused by failures or errors: the probability of failure due to the amount of judgment, academic, or technical skill required to manage the unit or perform key activities.
External Factors	Describes the environment in which the process / function operates and the type and amount of external interaction in which the process / function engages. Factors to consider include overall the District and regulatory environment, the level of interaction with stakeholders and success in satisfying their requirements, the financial reporting environment, and results of regulatory compliance audits.
Revenue Source / Materiality	Describes resources available and expended by the process / function. Factors to consider include the originating source of funds for a process / function, function budget, function spend, availability and use of other resources, and significance of impact to the overall operation of the District.

The internal audit function should include a balance of all types of internal audits and reviews. As such, an internal audit plan should include: Overall Audit Functions, Cycle Audits, District-wide Audits, Individual Function Audits, and may include Special Requests. We have included the Proposed Top 10 from which the School Board can prioritize a potential internal audit plan for FY21. This includes an overview for each process as well as a summary of the internal audit strategy for each audit, subject to modification during the initial planning stages and scoping of each audit and subsequent discussions with management.

Proposed Top 10 High Risk Processes for Internal Audit

The objective of the risk assessment update is primarily for the development of a proposed internal audit plan for FY21. The Proposed Top 10 will assist the District in creating an internal audit plan with sufficient and continuous internal audit coverage of those areas judged as having a relatively high-risk profile or that otherwise require internal audit attention for various reasons.

1. *Design and Construction – General Operations and Contract Compliance*

According to the United States Census Bureau, the population of Osceola County increased 39.8 percent from 2010 to 2018, as compared to the state of Florida, which increased 14.2 percent. The Florida Legislature enacted Senate Bill-30A, which established constitutional class size maximums and implemented a plan allowing districts to incrementally reduce the classroom sizes each year until the constitutional class size maximums were met. The District complied with the constitutional class size requirement in the 2017-18 fiscal year. To continue to meet the class size requirements with the County's growing population, the District appropriated \$116 million for construction projects as part of its capital outlay program during the 2019 fiscal year. The FY 2020 Budget for major capital projects totaled over \$690 million, with over \$276 million budgeted for the current year, and the remaining \$413 million projected through FY 2024-2025. A few of the major construction projects in process include the construction a new high school, middle school and elementary school. Additionally, the district has kitchen remodeling projects at one middle school, two elementary schools, and one alternative school, as well as comprehensive renovations at one elementary and two middle schools.

Construction projects are funded through several mechanisms, including the Capital Outlay and Debt Service ("CO&DS") Fund, the Public Education Capital Outlay ("PECO") Fund, and the School Capital Outlay Surtax. Construction includes activities concerned with the acquisition of land, buildings, remodeling buildings, construction of buildings, other built-in equipment, and improvement to sites. Planning, Design and Construction requires a large amount of capital outlay to function properly, which is one reason why it is inherently high risk. The District receives a half-cent sales surtax to supplement capital expenses for facilities, technology and security. Construction contracting and monitoring of construction contractors can be complicated and time consuming, creating risk in lean departments.

Additionally, the District received two findings related to construction contracts during the 2016 Operational Audit completed by the Florida Auditor General. First, the District did not competitively select, in accordance with State law, certain construction management entity (CME) services. Second, District procedures did not require District personnel to attend subcontractor bid openings or to document comparisons of subcontractor bid awards to the CME subcontractor contracts to verify that subcontractors were competitively selected and that successful bid and contract amounts agree. Both findings were similar to findings in the 2013 Operational Audit.

Inherent risks may include: Outdated, inadequate or undocumented policies and procedures, Inadequate scoping; Projects exceed budgets; Non-compliance/improprieties with Florida Statutes and District policies for solicitation and procurement; Unreported conflicts of interest; Inappropriate spending due to non-compliance with vendor contract terms; Non-performance of vendors; Failure to meet select contract provisions; Construction does not meet specifications; Projects are not completed on schedule; Inadequate and untimely review of invoices and change orders; and Inadequate documentation and audit trail of projects.

Internal Audit Strategy

This audit will be designed to assess whether the system of internal controls is adequate and appropriate for the categories of compliance with applicable laws, administrative rules, and other guidelines. It will focus on the control structure surrounding the procurement of construction related contracted goods and services including contract negotiation and budget development; project management activities including the invoice review, change order review, and vendor performance monitoring.

Proposed Top 10 High Risk Processes for Internal Audit – continued

2. Human Services – Human Resources Recruitment and Onboarding

One of the most critical activities of a high-functioning Human Resources Department is the ability to recruit qualified candidates and execute successful onboarding processes. Employee hiring / onboarding refers to the procedures taken when an individual is hired to a position at the District. The process for hiring / onboarding includes working collaboratively with different departments from initiation through the first day of employment. The District implemented a new hiring and onboarding software application during FY 2018-19, and our audit procedures would be designed to assess the effectiveness of the newly implemented processes.

HR also includes management of employee benefits programs, risk management, and wellness programs. To accomplish these tasks, the HR department provides services to about 8,360 District employees. Each of these processes require collaboration between HR and every other department in the District. Bringing the process together within an acceptable time period and in compliance with rules, laws and District policies is inherently challenging, since phases of the process are owned by multiple parties. These factors make Human Resources an inherently high-risk function, from a financial, operational, compliance, and public perception perspective.

Inherent risks may include: Collaboration and information sharing with Departments is ineffective; Outdated, inadequate or undocumented policies and procedures surrounding job posting, recruiting, screening and offers of employment; Candidate vetting and approvals are not occurring before active employment; Recruiting and hiring process is not efficient/timely thus positions go unfilled; Employees hired are not adequately screened and qualified; and Non-compliance with applicable policies, laws and regulations.

Internal Audit Strategy

The main objective of an audit of the new hire / onboarding process would include an assessment of the following areas: recruiting, selecting, and onboarding of employees. Aspects of the assessment would include, but not be limited to testing of: completion of any required pre-employment consent forms, performance of necessary background check activities, candidate vetting, the orientation process, employee setup and timeliness to fill positions.

3. Information and Technology Services – Data Protection Assessment

An assessment of data protection includes a deep dive into the protection of sensitive data (ex: student data, personally identifiable information, etc.) Privacy concerns exist wherever sensitive information is collected, stored, used, and finally destroyed or deleted – in digital form or otherwise. As laws and regulations surrounding data protection are constantly changing, it is critical to keep abreast of any changes in laws/regulations and continually reassess compliance with data privacy and security regulations. The District's business platforms and student information system are critical for employees, administrators, teachers and students to perform a variety of day-to-day functions and responsibilities. These systems store a variety of sensitive data including names, dates of birth, social security numbers, home addresses, grades and course history, and health data.

Data protection includes, but is not limited to, the encryption of data within the systems, the encryption of data when transmitted outside of the systems, restriction of sensitive data movement via email or removable media, restriction and monitoring of privileged / administrator user access, and implementation of network firewalls and intrusion detection / prevention solutions and the appropriate segregation of duties for users with the ability to develop and migrate production-level changes to source code. Without adequate data protection considerations in place, the District leaves themselves vulnerable to sensitive information being accessed, manipulated, stolen, or leaked by unauthorized personnel thus resulting in the District's reputation being negatively impacted.

Internal Audit Strategy

The main objective of this assessment should be to identify any areas of risk associated with protection of sensitive data that could cause harm to the District. Specific areas of focus may include logical access, privileged access, user access reviews, segregation of duties, change management, policies and procedures, data encryption, network security and physical security.

Proposed Top 10 High Risk Processes for Internal Audit – continued

4. Business and Fiscal Services – Health Care and Self-Insurance

The District provides its employees with on-site health services from urgent care to primary care visits, school physicals, x-rays, physical therapy and chronic disease management at one convenient location, with no cost to those covered under the District's medical plans. Recently, the District approved a transition from its former provider AdventHealth to a new provider, RosenCare.

The District is self-insured to guard against their exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Being self-insured, means that there is a transfer of risk from the employee and dependents to the employer directly. Self-insured employers pay the cost of each claim 'out of pocket' as they are incurred instead of paying a fixed premium to an insurance carrier or to a state-sponsored fund. Actuaries are utilized for liability determination.

Benefits are a critical piece of an employee compensation package, and health care benefits are often times rated by employees as the most important benefit offered by an employer. Increased costs to all stakeholders and specifically to employees and employers have created the need for entities to scrutinize the structure and funding of their insurance plans. Self-insurance, while commonly used, is inherently high risk due to the high dollar cost and outsourced needs associated with this function from a financial, compliance and performance perspective.

Internal Audit Strategy

The objectives of this internal audit would be to assess the design and effectiveness of the internal control structure as it relates to the District's process around the adequacy of self-insurance funding and net position, as well as assessing the compliance of the District's provider with their current agreement.

5. School Operations – Maintenance Operations

The District's Maintenance Department is responsible for sustaining a safe, sanitary, and functional environment for the students and employees of the District. The function oversees the repair and upkeep of District grounds, buildings, and equipment, and is organized into 3 Maintenance Zones with a Foreman, Lead, Section Chief and Building Automation Specialist assigned to oversee each zone. Staff consist of Journeymen Electricians, Journeymen Plumbers, Journeymen HVAC Specialists, Certified Back-Flow Prevention Specialists, Licensed Pest Control Specialists, as well as General Maintenance Specialists, Masons, Painters, Roofers, Carpenters, Welders, Cabinet Makers, Mechanics, etc.

Inherent risks may include: Outdated, inadequate or undocumented policies and procedures; Non-compliance / improprieties with Florida Statutes and District policies for solicitation and procurement; Unreported conflicts of interest; Non-compliance with vendor contract terms; Failure to meet select contract provisions; Vendor favoritism; Non-performance of vendors; Inaccurate accumulation or allocation of time and materials to work orders; Ineffective monitoring and reconciliation of the work order system; Inadequate monitoring of work order distribution, production and / or overtime; Untimely response to and priority of work orders and needs of the District; and Inadequate monitoring of key performance indicators, such as work order turnaround, employee productivity, and parts utilization.

Internal Audit Strategy

This audit will be designed to assess whether the system of internal controls is adequate and appropriate, within the Maintenance Department, for promoting and encouraging the achievement of management's objectives in the categories of compliance with applicable laws, administrative rules, and other guidelines. It will focus on the Maintenance Department's process for procurement of goods and services; and management and administration of vendors and contracts, including monitoring activities.

Proposed Top 10 High Risk Processes for Internal Audit – continued

6. *Purchasing and Warehouse – Property Control*

Effective property control practices are critical to ensure accurate records are maintained to capture and track all relevant asset information. The current pandemic has impacted the risks surrounding property tracking and monitoring, as property users are increasingly remote. Property Control is performed within the Purchasing/Property Records Department. This function is responsible for accurately maintaining property records, safeguarding all property, conducting an annual inventory of all tangible property owned, accurately recording acquisitions, deletions and other changes into the Terms Asset Management database file in a timely and appropriate manner, as well as ensuring compliance with Florida Statute, District policies and other laws and regulations as they relate to capital assets. This function also provides appropriate property-related information and training to District departments and schools. The internal audit over property control will focus on tangible personal property and software, as the risk of loss occurs at this level. Our audits are not intended to include, and will not include, review of controls or inventories over real property, including buildings, or other types of intangible assets, if any.

Capital assets are defined as those costing more than \$1,000 for tangible personal property and \$25,000 for real property. Per the District's audited Comprehensive Annual Financial Report for FY 2018-19, total Capital Assets before depreciation were \$1,263,453,386.

Internal Audit Strategy

Objectives of the internal audit of Property Control will be to determine compliance, existence, completeness and consistency with respect to tangible personal property inventories conducted at the District through representative audits. This will include a review of District-wide property control processes, as well as a review of controls over the process as it relates to ensuring the general ledger and financial reporting are accurate based upon the results of the inventories. The audit will also include a review of prior inventory count results and identification of any potential control deficiencies and improvement opportunities noted during our review.

7. *District-Wide – Contract Compliance*

Contract compliance encompasses all contractual agreements, including but not limited to vendor agreements. It includes those activities performed from the time a contract is executed until the work has been completed and accepted, payment has been made, and disputes have been resolved. Although certain aspects of the purchasing function are centralized within Purchasing, many of the high-risk areas like contract administration and monitoring are decentralized to the individual departments/contract owners.

There are numerous risks inherent to contract compliance such as possible inappropriate spending due to non-compliance with contract terms, potential conflicts of interest, and failing to meet select contract provisions. These factors and the materiality of vendor contracts make this process high risk from a financial, compliance and public perception perspective.

Internal Audit Strategy

This audit would be designed to assess whether the system of internal controls is adequate and appropriate for effective contract compliance, with selected provisions of the contract as it relates to payment for goods/services, and assess the District's monitoring processes for opportunities for improvement. We will select a sample of high-risk contracts to test in detail for compliance with the effective agreement terms and conditions, including pricing and invoicing to the District, as well as adherence to any right to audit clauses and required insurance coverage, and other potential risks to the District as appropriate.

Proposed Top 10 High Risk Processes for Internal Audit – continued

8. Business and Finance – Purchasing and Procurement Compliance

The purchasing function involves the procurement of materials, supplies, equipment, and services at the lowest possible cost, while also working to provide the quality needed, in a timely manner, to meet the unique needs of the District. There are varying aspects of purchasing (competitive bid, quotes, sole-source, piggy-back, etc.) that are guided by Florida Statute, Chapter 287 *Procurement of Personal Property and Services*. The process includes the proper request and authorization of a purchase, scope development, selection process including the make-up of the committee, execution of contracts including legal requirements, and overall recordkeeping. Adequately documented policies and procedures, a robust control environment including appropriate segregation of duties, and transparent selection of vendors are key to the overall success of the function.

The policies, procedures, and related control environment within the Purchasing Department extend to all goods and services procured by the District. The Purchasing Department often acts as a “gatekeeper” of the District’s funds to ensure proper spending and, due to the volume of funds expended under the umbrella of the purchasing function, the Department operates in an inherently high risk environment. In addition, fair and transparent selection of contracts and vendors is a key component to maintaining a positive public image. Inherent risks include: Outdated, inadequate or undocumented policies and procedures; Ineffective scope development; Non-compliance / improprieties with Florida Statutes and District policies for solicitation and procurement; Purchases not properly authorized; Purchases not made for legitimate business needs; Inadequate segregation of duties; Legal ramifications; and Bid protests.

Internal Audit Strategy

The objective of this audit would be to evaluate the design and control structure, including adherence to policies and procedures for operating effectiveness. This will include areas such as assessing compliance with authorization, solicitation, selection, and contract execution with vendor/supplier per Florida Statute and District policies and procedures; evaluating sufficiency and adequacy of the documentation and records to support the procurement; and appropriateness of access controls and that segregation of duties are present within the purchasing function.

9. Payroll – Timekeeping: District-wide

Timekeeping is a District-wide process/function that involves all departments within the District. As a direct result of the timekeeping process, a significant portion of the District’s budget is comprised of payroll costs and the related taxes and benefits. The District employs over 4,080 instructional and 4,280 non-instructional (administrative, technical, support, elected officials) employees, over 8,360 employees in total. These salaries and benefits comprise approximately 62.5% of the total estimated operating budget.

Timekeeping is the process of recording and tracking of time for employees. As with many entities, public and private, the process for recording and tracking of time is decentralized by Department at the District and has manual components. The process varies by department, employee-type, and pay-type. Time reporting is on an exception basis and employees are covered under a variety of different compensation structures such as salary, hourly, and other payment agreements. We understand that the District is currently working to implement an automated timekeeping system as part of their strategic plan. Thus, this proposed audit area is lower on the list of the Top 10, to allow time for implementation.

Inherent risks may include: Outdated, inadequate or undocumented policies and procedures; Inadequate controls to detect fraud, waste and abuse; Inadequate segregation of duties; Non-compliance and inconsistencies with policies and procedures; Employees paid for time not worked or approved; Potential for human error; Inadequate documentation and retention of timekeeping records; and Ineffective accounting and administrative controls over tracking, recording, monitoring and reporting.

Internal Audit Strategy

The primary objective of this audit would be to evaluate and assess whether the internal control structure over time tracking, recording, monitoring and reporting is appropriately designed and operating effectively to mitigate inherent risk and safeguard the District’s assets.

Proposed Top 10 High Risk Processes for Internal Audit – continued

10. Teaching, Leading and Learning – Charter School Monitoring/ Compliance

Charter schools are governed by Florida Statute Section 1002.33(2)(b). The purpose of a charter school is to improve student learning and academic achievement, increase learning opportunities for all students (with special emphasis on low-performing students and reading), encourage the use of innovative learning methods, and require the measurement of learning outcomes. Currently, the District sponsors twenty-seven (27) charter schools. Per the Final Budget as adopted on September 8, 2020, of the 71,315 projected total FTE for the District, 15,182 (21%) are projected to attend charter schools. The District monitors the charter schools, which includes obtaining monthly financial data of each charter school, as well as other documentation required per Florida Statute. Adequate monitoring controls are critical to detect red flags which could potentially interrupt learning for students. As the number of charter schools the District sponsors increases, and Florida Statutes evolve, charter schools will continue to have high financial and compliance risks, as well as public perception.

Internal Audit Strategy

An audit of charter school monitoring & compliance would include both a District level and individual charter school review. At the District level, the audit would include an evaluation of the reporting relationship between the District and the charter schools, as well an evaluation of the monitoring process and procedures in place at the District. An audit of an individual charter school would include an assessment of compliance with Florida Statutes, specifically as it relates to the school's financial condition, as well as determine compliance with the contract between the charter school and the District.



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